

CITY AUDITOR'S OFFICE



INTERNAL CONTROL REVIEW ACTIVITY REPORT DECEMBER 31, 2004

Report No. CAO 2900-0405-04

April 14, 2005

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BACKGROUND

The City Auditor's Office has the responsibility to Evaluate, Enhance, Educate, and Enforce internal control issues that come to the Office's attention.

- **Evaluate** - The Office independently and objectively performs Internal Control Reviews to evaluate applicable internal controls through professional expertise and judgment.
- **Enhance** - After evaluation the Office makes recommendations to enhance the adequacy and effectiveness of existing controls and further recommends additional controls as appropriate.
- **Educate** - Through the Internal Control Review Memorandums to management and the periodic *Internal Control Review Activity Report*, the Office Educates management and others of appropriate internal controls.
- **Enforce** - Enforcement is limited to supplying data to management to help them enforce the policies and procedures of the City.

The results of the Internal Control Reviews are reported in two steps:

- An Internal Control Review Letter (Memorandum) is released to the appropriate levels of management and the Mayor and City Council. This assists in the correction of deficiencies and reports on the adequacy and effectiveness of existing controls.
- Semiannually, a summary report is made of all findings and recommendations and released in a formal *Internal Control Review Activity Report*.

This report recaps the memorandums issued since the last *Internal Control Review Activity Report* including, a list of all memorandums issued with a synopsis of the findings and recommendations. The recommendations are entered into the follow-up system for tracking purposes

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OBJECTIVES

Our objectives in completing the *Internal Control Review Activity Report* are to:

- Review all activity for the period noted relative to internal control reviews;
- Document for tracking purposes findings and recommendations noted in Internal Control Memorandums; and
- Report to the public the results of activities of the City Auditor's Office.

The objectives of each of the Internal Control Reviews were to:

- Determine the appropriate internal controls related to each of the Reviews;
- Determine the reason(s) for any control failure;
- Recommend corrective action; and
- Report the results of our review.

SCOPE AND METHODOLOGY

Fieldwork performed during each of the Internal Control Reviews was performed in accordance with generally accepted governmental auditing standards. Procedures included:

- Observing operations.
- Interviewing personnel.
- Reviewing records, reports, and other applicable documentation.

ACTIVITY REPORT

From inception of the internal control review process until December 31, 2004, fifteen incidents were identified for review. A report, referral, or memorandum has been issued on five incidents. Ten incidents remain in process at various stages of completion.

INTERNAL CONTROL MEMORANDUMS ISSUED

Mail Room Change Fund Theft

Background

The City of Las Vegas has a City Mailroom that is operated by the Information Technologies Department. In the mailroom, a change fund was established to purchase stamps for resale to City employees. During a surprise cash count of the mailroom change fund on February 5, 2004, the City Treasurer's Office noted a shortage of \$470. The City Marshal's Office was called to investigate this loss. A mailroom employee / clerk substituted an IOU in the amount of \$170 and a personal, undated check in the amount of \$300 to conceal the \$470 shortage. The subject employee involved was placed on administrative leave with pay pending a disciplinary hearing. Before the hearing was convened, the employee was arrested,

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placed in custody, and subsequently released. The employee resigned in lieu of termination on February 27, 2004. The subject employee is not eligible for rehire. The employee made restitution of \$470.

Findings / Conclusions

Existing policies and procedures for handling cash were not followed as noted below.

Written Procedures – The Information Technologies Department did not have written procedures regarding cash handling in the mailroom.

Segregations of duties or a second person as a verifier – A second person was not appointed to verify reconciliation.

Limited access – Access to the funds was not limited to only one employee. The assigned custodian did not maintain control of the change fund. The change fund was assigned to one employee per the City Treasurer's Office. In breach of this policy the designated custodian assigned the change fund on a weekly basis between himself and another employee. This created an opportunity for the non-custodian to manipulate the change fund and avoid detection.

Unannounced Inspections – The department director or a designee was not performing and documenting unannounced inspections of the mailroom's cash handling activities as required by city policy.

Recommendations

The following recommendations are made:

- 1.1 Information Technologies management should improve existing internal controls in the City's mailroom by establishing and documenting appropriate procedures.
- 1.2. Information Technologies management should review the needs for cash in the City Mailroom to determine if the fund can be reduced, thereby reducing the amount of funds exposed to theft.
- 1.3. Information Technologies management should evaluate and document other methods of purchasing stamps (e.g. P-card purchases).
- 1.4. Information Technologies management should evaluate and document eliminating the stamp window and replacing it with a self service station. The service hours currently utilized should be compared to the available hours of a self service station. Additionally, the cost for employees to operate the stamp window should be compared to the cost of establishing a self service station.

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ICR 004 – West Community Center - Cash Handling

Background

On July 22, 2004 an employee in the City Treasurer Office notified the City Auditor's Office that a deposit of \$80 from the West Community Center had not reconciled with the bank after six days. The receipts were reflected in the CLASS system on July 10, 2004. Two emails were sent to the supervisor of West Community Center advising her of the discrepancy. On July 20, 2004, the supervisor replied that, "*she would make sure its taken care of before the end of the day.*" The subject employee made the deposit for the \$80 in person that day at the bank.

Findings / Conclusions

Existing policies and procedures for handling cash were not followed as noted below.

Written Procedures – The West Community Center did not follow written procedures regarding cash handling.

Deposits – The West Community Center did not make deposits on a timely basis.

Forms – The West Community Center did not record the cash collected on the proper form.

Recommendations

Management should improve existing internal controls by establishing and documenting appropriate procedures. The procedure should address the following elements:

- 2.1. Qualified and Trained Personnel – The personnel should be qualified and adequately trained to perform the cash handling functions. Written standards should be established for requirements for qualification and training associated with the handling of cash.
- 2.2. The supervisor should query CLASS on a daily basis and cross check the deposits to ensure deposits were made in a timely manner and that proper forms were completed.

ICR 005 – Field Operations - Procurement Card (P-Card) Misuse

Background

On September 13, 2003 and January 9, 2004, a former supervisory employee (Department of Field Operations) used the City of Las Vegas P-Card to purchase cement from a Cement Contractor for a personal projects in the amount of \$450 and

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\$700. Both of these projects were for City of Las Vegas employees. The former supervisory employee operated his own private business. The vendor contacted Finance & Business Services because the delivery addresses were outside the City of Las Vegas. Finance & Business Services investigated these irregularities. The former supervisory employee also used the City's P-Card for personal charges at a local restaurant on February 15, 20, 28 and 28, 2004 for a total amount of \$553.96, which included cash and cash transaction fees. The former supervisory employee attempted to repay the City of Las Vegas for the restaurant charges, the check was returned for insufficient funds. Finance & Business Services was able to collect the known false charges of \$1,703.96 from the former supervisory employees last payroll check. Several items charged and reflected on the P-Card transaction report did not specify what was purchased making the reconciliation process extremely difficult.

Findings / Conclusions

Existing policies and procedures for P-Card purchases were not followed as outlined in Procurement Card Program Policy FN605.1.

Purchases – Questioned purchases were not for City of Las Vegas business purposes.

Documentation – Documentation was inadequate to identify details of transactions.

Supervisory Review of Purchases – There were several items on the transaction details that were questionable, e.g. purchase of numerous cement related tools, palm pilots, and digital cameras. Active supervisory review should have identified inappropriate items.

Abuse/Violations – Several transactions were made for inappropriate items including: concrete, palm pilots and cash advances.

Training – Inadequate training of reviewers.

Recommendations

The following recommendations are made:

- 3.1. Management should ensure cardholders are aware of the P-Card policy and procedures.
- 3.2. Reviewers need to adequately review and follow-up on questioned.
- 3.3. Reviewers should require detailed receipts before authorizing P-Card payments.
- 3.4. Reviewers should review P-Card purchases on a regular basis.

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3.5. Reviewers/approvers and departmental management should thoroughly understand the P-Card policy and procedure to be effective in safeguarding the City's resources.

REPORTS ISSUED

INVESTIGATIVE REPORT – Petty Cash Theft – Planning and Development Department, CAO 2300-0304-03, dated February 27, 2004

The findings and recommendations identified in this report have been tracked for follow-up purposes since the release of the original report. No additional follow-up will be tracked in the Activity Report.

CRIMINAL REFFERAL

Department of Leisure Services Administration Accounting Unit Irregularities

Background

Approximately \$103,000 in Leisure Services deposits from the period August 2000 through December 2001 were found to be missing. Approximately \$19,000 of these deposits were traced to an ex-employee from the Leisure Services Accounting Unit. The City Marshal's Office investigated this incident and referred this incident for prosecution.

Findings / Conclusions

The procedures in place during the period the thefts took place were found to be deficient. They lacked adequate preventative internal controls to give reasonable assurance that a theft could be prevented. Additionally, they did not include adequate detective controls to give reasonable assurance that if committed the theft would be discovered.

Subsequent to this incident all procedures have been revised and controls now exist to mitigate the identified deficiencies.

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**MANAGEMENT RESPONSES
TO
INTERNAL CONTROL REVIEW – ACTIVITY REPORT**

1. MAIL ROOM CHANGE FUND THEFT

Recommendation 1: (INFORMATION TECHNOLOGIES)

Information Technologies management should improve existing internal controls in the City's mailroom by establishing and documenting appropriate procedures.

Management Response:

The following procedures were implemented as a result of this recommendation.

- Only one staff member will be operating the Stamp Window. During short absences, (one day or partial day) the Stamp Window will be closed. For extended absences, (more than one day) the stamp window fund will be audited by the Graphic Operations Supervisor and the fund assigned to another staff member with an audit before the fund is returned to Stamp Window Operator.
- The Stamp Window Operator will provide a weekly fund report to the Graphic Operations Supervisor. This report will include; deposit receipt copies, a copy of the handwritten descending register log, copies of the daily cash register tapes, copies of the daily cash box reconciliation sheet and a copy of the postage machine account audit trail report for account 90.
- The Stamp Window Operator will complete a City of Las Vegas Fund Custodian Transfer form, adhere to City cash handling standards and attend City cash handling training.

Expected Date of Completion:

May 24, 2004

Recommendation 2: (INFORMATION TECHNOLOGIES)

Information Technologies management should review the needs for cash in the City Mailroom to determine if the fund can be reduced, thereby reducing the amount of funds exposed to theft.

Management Response:

The requirement for cash to operate the Stamp Window in the City Mailroom was evaluated along with the City Treasurer. The outcome of that evaluation was the necessity to have cash for the operation and that \$1500.000 was the appropriate amount.

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Expected Date of Completion:

May 24, 2004

Recommendation 3: (INFORMATION TECHNOLOGIES)

Information Technologies management should evaluate and document other methods of purchasing stamps (e.g. P-card purchases).

Management Response:

The use of a P-card to purchase stamps would not eliminate the need to handle cash since cash is the only method of payment for the stamps. Cash would still need to be deposited with the City Treasurer to reconcile with the P-card account purchases.

Expected Date of Completion:

May 24, 2004

Recommendation 4: (INFORMATION TECHNOLOGIES)

Information Technologies management should evaluate and document eliminating the stamp window and replacing it with a self service station. The service hours currently utilized should be compared to the available hours of a self service station. Additionally, the cost for employees to operate the stamp window should be compared to the cost of establishing a self service station.

Management Response:

The United States Postal Service was contacted in reference to placement of a self service station. They responded that they had a very limited supply of the self service stations with a large waiting list and that deployment was based on estimated usage. We could place our name on the list, but based on our usage, we would have no real expectation of obtaining one of the USPS self service stations. Other options to dispense stamps only are available but do not mitigate the need for handling of packages.

Expected Date of Completion:

May 24, 2004

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2. ICR 004 – WEST COMMUNITY CENTER – CASH HANDLING

Recommendation 1: (LEISURE SERVICES)

Qualified and Trained Personnel – The personnel should be qualified and adequately trained to perform the cash handling functions. Written standards should be established for requirements for qualification and training associated with the handling of cash.

Management Response:

When CLASS was deployed at the West CS, all personnel received training and cash handling procedures were established; however, this was an isolated case where the employee had computer difficulties with the CLASS process and failed to inform her supervisor in a timely manner. She was given a verbal reprimand and put on notice that any other actions of this nature would result in further disciplinary measures against her. Management has also put into action to have all personnel review and initial the procedure in order to refresh and reiterate proper cash handling.

Expected Date of Completion:

May 1, 2005

Recommendation 2: (LEISURE SERVICES)

The supervisor should query CLASS on a daily basis and cross check the deposits to ensure deposits were made in a timely manner and that proper forms were completed.

Management Response:

The Coordinator now closely monitors the centers deposits on a daily basis, and encourages staff to be more diligent in the cash handling processes.

Expected Date of Completion:

Completed

3. ICR 005 – FIELD OPERATIONS – PROCUREMENT CARD (P-CARD) MISUSE

Recommendation 1: (FIELD OPERATIONS)

Management should ensure cardholders are aware of the P-Card policy and procedures.

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Management Response:

Copies of the Procurement Policy and Procedure were provided to staff along with a memo reminding staff to adequately document procurements and to follow governing procedures. In addition, Division Manager has reminded staff several times of the Procurement Policy and Procedure.

Expected Date of Completion:

10/18/04

Recommendation 2: (FIELD OPERATIONS)

Reviewers need to adequately review and follow-up on questioned.

Management Response:

The Division needs to do a better job documenting the details of our procurement transactions, both for historical documentation and to facilitate the payment process. Staff has been directed to record on all receipts: name of the person receiving the product (written and signature), Division name, and description and location of product utilization. These additional requirements have allowed for a more thorough review of procurements made by this Division.

Expected Date of Completion:

10/18/04

Recommendation 3: (FIELD OPERATIONS)

Reviewers should require detailed receipts before authorizing P-Card payments.

Management Response:

Staff was directed to always obtain a receipt, and make a notation on all receipts describing what was bought and the purpose (memo dated 10/18/04). In addition, the memo stated that reconciliation of procurements would not be processed unless ample justification and description is provided.

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Expected Date of Completion:

10/18/04

Recommendation 4: (FIELD OPERATIONS)

Reviewers should review P-Card purchases on a regular basis.

Management Response:

Purchases are reviewed on a weekly basis. Only those items where receipts have been submitted are reconciled.

Expected Date of Completion:

10/18/04

Recommendation 5: (FIELD OPERATIONS)

Reviewers/approvers and departmental management should thoroughly understand the P-Card policy and procedure to be effective in safeguarding the City's resources.

Management Response:

The Policy and Procedure has been reviewed by management and implemented an improvement in our process to assist in safeguarding the City's resources.

Expected Date of Completion:

10/18/04